

11th APEC Finance Ministers' Meeting Joint Ministerial Statement

2-3 September 2004, Santiago, Chile

I. Introduction

We, the Finance Ministers of the APEC economies, convened our eleventh annual meeting in Santiago, Chile, on 2-3 September 2004. Mr. Nicolás Eyzaguirre, Chile's Minister of Finance, served as Chairman. The meeting was also attended by the Managing Director of the International Monetary Fund, the President of the Inter-American Development Bank, the Vice Presidents of the World Bank and the Asian Development Bank, and the Deputy Executive Director of the APEC Secretariat, as well as by representatives from the private sector.

We met under the policy themes of "*Fiscal policies for growth and stability in an open APEC region*" and "*Institution building in a world of free and volatile capital flows*". In discussing the themes, we emphasized that to reap the benefits of enhanced openness and integration, member economies must have in place policies and institutions that lead to sustainable, broad-based and equitable growth in the region.

II. Global and Regional Economic Developments

We note with satisfaction the strengthening of this year's global economic growth and the continued favorable outlook for 2005, notwithstanding the risks associated with high oil prices. We stress the important fact that investment and trade are the leading factors behind the global economic recovery. In our view, both factors are crucial for stronger and broader based growth and for spreading the benefits of globalization. We also note that restored confidence in financial markets, revealed in lower spreads, has contributed to the recovery. Despite higher growth and increases in a number of commodity prices including oil, inflation is expected to remain moderate in most economies.

We also observe that the APEC region is growing faster than the world economy. Though the developed APEC economies are driving this recovery, it is the emerging economies within the region that are showing the highest growth rates, reflecting the sound macroeconomic policies instituted, buoyant exports and the recovery of domestic demand.

In pointing out that trade is one of the key factors pushing growth in the region and the world, and in consonance with the Bogor Goals, we reiterate our support for the WTO Doha Round. We welcome the Decision Adopted by the General Council on 1 August 2004 and call for reaching prompt and concrete results in the negotiations.

Ministers note that terrorism remains a threat to growth and stability and support actions to combat terrorism including increased compliance with accepted international standards to counter money laundering and terrorist financing, as well as other measures including fostering closer cooperation among financial intelligence units and customs. In this context, we urge FATF to make progress, as appropriate, in the enlargement of its membership.

III. 11th APEC FM Process Policy Themes

Looking forward to the Bogor Goals, the discussions under the two policy themes underscored the importance of sound policies and robust institutions to successfully meet the challenges of globalization.

Fiscal Policies for growth and stability in an open APEC region

We acknowledge the importance of disciplined and sustainable fiscal policies for their contribution to long-term growth and macroeconomic stability. Sustainable fiscal policies keep public indebtedness within limits that help to ensure continued access to international capital markets and reduce external vulnerability. At the same time, such policies allow social and investment expenditures to be maintained during economic downturns. Fiscal discipline will also help governments to better face the future fiscal challenges associated with population ageing.

Transparency is a key element for fiscal credibility and accountability, and hence for good governance. We underscore the need for strong institutions to ensure fiscal discipline while granting sufficient flexibility to manage economic shocks. We recognize that there is no single way of inducing fiscal discipline and that properly designed fiscal rules can be useful tools to guide fiscal policy.

We are pleased with the significant progress being made in a number of APEC economies in strengthening fiscal institutions. Such progress has improved our economic resilience and helped our region to both weather successfully the economic slowdown of the past years, and be in the forefront of world economic recovery. We agree to continue building on the progress made in order to address current and future challenges to fiscal sustainability.

Institution building in a world of free and volatile capital flows

We stress that financial integration can contribute to growth and economic development through benefits that include reductions in the cost of capital, greater technology transfers, increased investment opportunities, improved competitiveness in domestic financial markets and lower consumption volatility. However we also recognize that freer capital flows can heighten vulnerabilities, especially in emerging market economies, increasing the importance of sound economic policies, strong institutions, and appropriately sequenced liberalization. We note also that additional efforts at the international level can be helpful in this regard.

At the domestic level, economies are encouraged to promote deep and broad financial systems for developing alternative sources of financing and diversification of risks, well-supervised financial institutions, improvements in transparency for authorities and market participants and good governance in general, in combination with a sound macroeconomic policy framework.

At the international level, additional efforts should be made by the IFIs to provide, as appropriate, liquidity to emerging economies with sound economic policies and fundamentals at times of distress originating from external shocks, along with their efforts to help economies achieve sound policies and institutions for growth. We welcome the growing number of economies that include collective action clauses in their international sovereign bonds and the convergence toward collective action clauses as a market standard.

We also note the increasing importance of remittances as a steady source of financial flows that can benefit emerging markets and urge continued work on analyzing and reducing the institutional and regulatory impediments to remittance flows.

Ministers welcome steps being taken at the regional and national levels to develop capital markets and strengthen banking systems, which would over time facilitate freer and more stable capital flows and the choice to move to an exchange rate regime with greater flexibility, in some economies, if they deem appropriate.

We highlight the importance of enhancing the resilience of markets and institutions to growing capital flows. We reaffirm our support for the Bogor Goals as useful tools to promote sustainable and broad-based growth in the APEC region.

IV. Other Matters

We welcome the dialogues with the APEC Business Advisory Council (ABAC), and the Pacific Economic Cooperation Council (PECC) Finance Forum. They have provided valuable insights from the private and academic perspectives, as well as support for the work under the themes of this 11th APEC Finance Ministers' Process.

We would like to thank the Chilean Government and the Ministry of Finance for the arrangement of this APEC Finance Ministers' Process and the Chilean people for their hospitality.

We will meet again for the 12th APEC Finance Ministers' Meeting in Jeju, Korea, on 8-9 September 2005.

Annex A. Policy Initiatives Review

a) Voluntary Action Plan for Supporting Freer and More Stable Capital Flows. (Canada, New Zealand and Chile)

Policy Dialogue on Deposit Insurance

The first APEC Policy Dialogue on Deposit Insurance was held in Kuala Lumpur, Malaysia on February 16-18, 2004. The Dialogue was chaired by the Canada Deposit Insurance Corporation and hosted by Bank Negara Malaysia.

The participants discussed three important issues affecting deposit insurers and other financial system safety net participants: (1) legal protection and indemnification for individuals working for deposit insurers and other financial safety net participants; (2) governance and interrelationship management among safety net participants; and (3) trigger mechanisms for prompt corrective action when dealing with troubled deposit-taking institutions.

The Policy Dialogue allowed participants to exchange views on topics related to deposit insurance.

Policy Dialogue on Financial Disclosure

In February 2004, the APEC Finance Ministers' Process held a Policy Dialogue on Financial Disclosure in Kuala Lumpur, Malaysia. The Policy Dialogue was co-chaired by Chile's Ministry of Finance and the Reserve Bank of New Zealand, and hosted by Bank Negara Malaysia. Its purpose was to provide a forum for exchanging views on the importance of high quality financial disclosure in the corporate and financial sectors and the means by which such disclosure can be promoted.

The Policy Dialogue noted the importance of high quality disclosure in the corporate and financial sectors of our economies. It was noted that disclosure plays a number of important roles, including: encouraging sound corporate governance and risk management; facilitating sound investment decisions and resource allocation; promoting a more robust financial system; and assisting in promoting economic growth.

Effective financial disclosure requires a number of underlying foundations, including: leadership by government authorities in adopting high quality standards for their own financial reporting; robust accounting standards; sound accounting practices, supported by a culture of fair, accurate and timely disclosure and ethical business practices; robust auditing standards and practices, supported by a culture of professionalism and ethical behavior in the auditing profession; effective monitoring and enforcement of accounting and auditing standards by bodies that have the required authority, resources, independence and credibility; sound corporate governance practices that underpin effective financial disclosure; strong market-based incentives that promote high quality disclosure; and structures and practices that encourage and assist the users of financial information to make greater use of financial disclosure.

III. b) APEC Financial Regulators Training Initiative: Progress Report (ADB and United States)

The Finance Ministers in their last meeting in Phuket endorsed an extension of this Initiative for a 6th year with the aim of: (i) delivering additional training courses at the regional level to help build a critical mass of potential trainers; (ii) organizing the transfer of training programs and

products developed under the Initiative to training institutions at the regional and national levels; and (iii) maintaining its Advisory Group (AG) structure.

In place since May 1998, the Initiative has the objective of developing and providing broad-based training to junior and mid-level financial sector regulators and supervisors. Regulatory and supervisory authorities in APEC economies and the ADB have supported this initiative. An APEC Advisory Group (AG) representing bank supervision and securities regulatory agencies from member countries and other interested parties (separate membership exists for bank supervision and securities regulation) provide oversight of the work done under this Initiative.

The 2004 training program includes 5 regional courses and assumed a reduced need for direct foundation and intermediate-level training on core topics under the Initiative (i.e. bank analysis, credit risk analysis, market risk analysis, and risk management and internal controls), given previous regional and national training seminars in these areas. Based on feedback obtained from AG members, the banking supervision component of the 2004 program comprises regional courses on emerging supervisory issues of risk-focused supervision and anti-money laundering, for which most supervisory organizations in the Region currently have comparatively little in-house training capacity. These courses are using instructors and content from the US Federal Reserve System.

At the 19 July meeting in Manila, the Advisory Group appointed Malaysia to the first of a two-year rotating chair (for the period 2004 – 2006). Bank Negara Malaysia will oversee the banking supervision component and the Securities Commission Malaysia will oversee the financial markets training component. It is also expected that training programs during this period will be hosted and facilitated by Malaysia.

c) Pathfinder Initiative on Corporate Governance (Australia)

Australia proposed this initiative at the Oaxaca (Mexico) TWG in June 2002 and will table the final report to Finance Ministers in Santiago. The initiative's Core Group Members include Australia, Korea, Malaysia, Mexico, New Zealand and Singapore. The Pathfinder is a peer review process that aims to encourage greater participation in the IMF and World Bank Reports on the Observance of Standards and Codes (ROSC) process, and report on members' achievements and plans for corporate governance reform. The Pathfinder's goal is to encourage all APEC economies to actively improve their corporate governance standards. The report details the achievements of the Core Group economies and discusses areas for further improvement.

d) Insolvency Law (Thailand and Korea)

After the APEC Initiative on Insolvency Law was instigated at the 5th APEC FMM in Canada in 1998, several advances have been achieved at a satisfactory level. A symposium on "Insolvency System in Asia" was held in Sydney in 1999. A series of meetings on "The Forum of Asian Insolvency Reform (FAIR)" were held afterwards. The FAIR I was hosted by Indonesia in 2001, FAIR II was hosted by Thailand in 2002, and FAIR III was hosted by the Republic of Korea, jointly with the OECD, several International Financial Institutions, and the Korean Ministry of Finance and their authorities in 2003.

Given that each economy has achieved a considerable level of domestic Insolvency Law reform and that the interest among APEC economies to participate in discussions on this topic has slowed down, the Meeting noted that the discussion on Initiative on Insolvency Law was complete, unless any member economies volunteer to lead the cooperation under this initiative.

e) APEC Initiative on Remittance Systems (Japan, Singapore, Thailand and United States)

Building on the APEC Alternative Remittance Systems Initiative from 2003, the APEC ARS Working Group (WG) Co-Chairs (United States, Thailand, Japan and Singapore) advanced their work on remittances in 2004 through holding a successful remittance symposium, supporting additional country case studies and presenting a summary of the main policy conclusions to the APEC Finance Ministers in September 2004. The APEC WG was renamed the “Remittances Initiative” in order to emphasize the development aspects of remittances. This new comprehensive approach will address the issues of shifting to formal funds transfer mechanisms and maximizing the social and economic impact of remittances.

The APEC ARS WG Co-Chairs and World Bank technical assistance team, in collaboration with the Asian Development Bank and Japanese Ministry of Finance, organized the APEC Remittance symposium and policy dialogue entitled “Shaping the Remittance Market by Shifting to Formal Systems”, 3-4 June 2004, in Tokyo, Japan. The symposium provided a unique opportunity for governments, international organizations, non-governmental organizations and private sector entities to participate in discussions on issues of formal and informal remittance systems and to hear presentations from a wide range of stakeholders in the remittance arena.

The key findings include a need for a more comprehensive and well-organized approach to information gathering to bring transparency to the market on critical features and challenges of industry. Regulations should be applied transparently and consistently to result in a level playing field for market competitors and should be made compatible across jurisdictions to minimize impediments. Increased investment in technology will also be useful in widening access to faster, cheaper, and convenient remittance services. The research also illustrates the importance of studying individual remittance corridors, since the social, cultural and economic nuances that have shaped a country's remittance landscape play a key role in determining how to develop formal channels.

In this meeting, the APEC Finance Ministers will be asked to welcome the 2004 APEC Remittance initiative report and support upcoming activities as proposed in the report, including a second Remittance Symposium and work toward improving data on remittances.

f) APEC Finance and Development Program (P.R. China and the World Bank)

Under the overarching three-year theme *Improving Financial Intermediation for Economic Growth, Development and Stability*, three workshops were successfully held under the APEC Finance and Development Program (AFDP) since the last December.

According to the AFDP 2004 work plan, its Annual Forum will be held in Sanya, Hainan Province, P.R. China, on 28 November 2004. About 100 delegates, including senior government officials, renowned scholars and private sector representatives from APEC member economies and IFIs are expected to attend the Forum and to share their experiences and observations. In addition, focusing on ‘SME Financing in the Asia Pacific Region’ and co-sponsored by the AFDP, Thailand Ministry of Finance and Korean Ministry of Finance and Economy, the third workshop of this year will be held in mid-December.

According to the proposal adopted in 2001, the three-year trial period of the AFDP will end in 2004. Given that member economies in the Asia-Pacific Region are encountering increasingly complex challenges in the areas of finance and development, and that there is still a need for institutional capacity building, it is crucial to continue the AFDP initiative. Based on this

consideration, the Deputies agreed to extend this initiative for another three years. They welcomed the P.R. China's contribution to capacity building and in this regard they took note of the P.R. China's intention to create a permanent institution that will provide training workshops, organize forums, and finance research projects on specific issues of member economies' common interest.

g) APEC Future Economic Leaders' Think Tank (Australia)

Australia proposed the annual Think Tank, which was formally launched at the Beijing TWG (December 2000) without a sunset limit. This initiative aims to facilitate the building of relationships and networks among the future financial and economic leaders in APEC; and to provide an experiential program that facilitates networking, problem-solving and the development of creative solutions for priority regional economic and financial challenges. The 2004 Think Tank was held on 30 June – 2 July and the theme was *Managing Capital Flows: the Domestic and Regional Policy Responses*. Twenty-five delegates from fourteen APEC economies considered the reform challenge posed by capital flows within APEC and proposed a roadmap for reform. Delegates called for enhanced policy dialogue to develop consistent macroeconomic approaches to address the character of regional capital flows; policy dialogue to identify reform sequencing appropriate to different stages of economic development; and the need to extend capacity building to strengthen domestic financial institutions

h) Development of Securitization and Credit Guarantee Markets (Hong Kong, China; Korea; and Thailand)

The APEC Initiative on Development of Securitisation and Credit Guarantee Markets is co-led by Hong Kong, China; Thailand and Korea and sponsored by the World Bank. Since the launch of the Initiative, two policy dialogues and six panel visits (two each to Thailand, China and Mexico) were held. The Initiative is successful in promoting the development of domestic securitisation and credit guarantee markets, especially in the three economies receiving expert advice. The experts panels have recommended concrete action plans to the national authorities for removing market impediments and considerable progress has been made in the implementation of market reforms. The co-chairs encourage APEC member economies to continue with their efforts and momentum in developing the markets by implementing the action plans and panel experts' recommendations.

As the Initiative is intended for a two-year term till September 2004, on behalf of the two co-chairs and the World Bank, the Initiative would be formally drawn to a close in this Finance Ministers Meeting. In light of the momentum generated to develop the securitisation and credit guarantee markets, some follow-up work on the Initiative may continue into the next year. The co-chairs and panel experts stand ready to continue to provide advice to the three advice-receiving economies upon request.

i) Initiative on APEC Financial Institutions Dealing with SME (Thailand)

The Ministers welcome the new Initiative on APEC Financial Institutions dealing with SMEs. Following the signing of a Memorandum of Understanding on Cooperation among APEC Financial Institutions Dealing With SMEs on 5 September 2003, during the Tenth APEC Finance Ministers Meeting in Phuket, Thailand, the signatory member institutions convened their First Annual Meeting on 28 July 2004 at Hua Hin, Thailand, under the chairmanship of SME Development Bank of Thailand.

The Ministers noted the success of the first annual meeting and the conference held in Hua Hin, Thailand. The Ministers stressed that greater cooperation among APEC financial institutions dealing with SMEs would bring about a better environment for micro, small and medium enterprises of participating economies. The Ministers also encourage other financial institutions from APEC economies to participate in the cooperation.

The Ministers noted that the China Development Bank would host the Second Annual Meeting in the year 2005. Subsequent annual meetings will be hosted on economy name rotation basis, thus Hong Kong, China, is scheduled to host the 2006 annual meeting.